

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Western Townships Utilities Authority	County Wayne
Audit Date September 30, 2004	Opinion Date December 10, 2004	Date Accountant Report Submitted To State: January 18, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

# **Western Townships Utilities Authority**

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**Financial Report  
with Supplemental Information  
September 30, 2004**

# Western Townships Utilities Authority

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## Independent Auditor's Report

To the Commissioners  
Western Townships Utilities Authority

We have audited the accompanying basic financial statements of Western Townships Utilities Authority as of September 30, 2004 and 2003 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of Western Townships Utilities Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Western Townships Utilities Authority as of September 30, 2004 and 2003 and the changes in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Western Townships Utilities Authority. We did not examine this data and, accordingly, do not express an opinion thereon.

The accompanying supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The supplemental information is presented for the purpose of additional analysis. Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Western Townships Utilities Authority's basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

December 10, 2004



A worldwide association of independent accounting firms

# Western Townships Utilities Authority

## Management's Discussion and Analysis

### Using this Annual Report

Western Townships Utilities Authority (WTUA or the "Authority") is a joint venture of three townships located in western Wayne County: Canton, Northville, and Plymouth. The primary role of the Authority is to operate a sewage transportation system for these communities. This annual report consists of a series of financial statements, footnotes, and supplemental information. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Authority. This is followed by the statement of cash flows, which presents detailed information about the changes in the Authority's cash position during the year. The next section includes the notes to the financial statements, which disclose the Authority's significant accounting policies and additional information related to certain amounts included on the statement of net assets. The final component of the annual report is the supplemental information, which is provided for the purpose of additional analysis.

### Financial Overview

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. All debt of the Authority is backed by the full faith and credit of its three member townships. From a financial perspective, the Authority's core objective is to manage the long-term costs of sewage disposal for its three member townships. In essence, the Authority acts as a conduit for its three members. The amounts to be charged to its members will, by definition, be equal to the Authority's costs of providing sewage transportation and treatment. The key financial statistics for the Authority, therefore, relate to measurements of the ability to reduce total costs to its members (as opposed to the ability to accumulate financial resources).

The following table shows the trend in total operating costs compared to flow volumes:

	Year Ended September 30				
	2000	2001	2002	2003	2004
Total costs charged to townships:					
Operating expenses - Net of unrestricted interest earnings	\$ 7,561,831	\$ 8,819,594	\$ 9,839,616	\$ 9,823,486	\$ 10,840,820
Total flow (thousands of gallons)*	5,856,821	5,984,018	5,839,753	5,380,039	5,478,451
Cost per thousand gallons	\$ 1.291	\$ 1.474	\$ 1.685	\$ 1.826	\$ 1.979

\* For the purpose of this calculation, flow volumes are measured as the metered quantity of sewage transported to both treatment facilities.

# Western Townships Utilities Authority

## Management's Discussion and Analysis (Continued)

WTUA currently transports the sewage to two treatment plants, the Ypsilanti Community Utilities Authority (YCUA) and the City of Detroit through the Wayne County/RVIS system. YCUA bills the Authority based upon actual sewage flow. A lookback is calculated by YCUA at the end of their fiscal year and charged to the communities based upon their share of the sewage flow. Payments are made to Wayne County for sewage that is treated by the City of Detroit as Wayne County maintains the sewage transportation system. The Wayne County bill is based upon a percentage of the water purchased by the Authority's townships from Detroit, adjusted for water-only and sewer-only customers. Wayne County pays the City of Detroit for actual sewage flow. The City of Detroit also calculates a lookback at the end of their fiscal year, which is charged back to the County, which is then allocated to the communities in the quarterly fixed charges.

### Condensed Financial Information

The following table presents condensed information about the Authority's financial position compared to the prior year. The decrease in restricted assets and increase in capital assets is mainly due to the YCUA construction in process. As discussed above, the Authority charges its members only as cash or working capital is required.

TABLE I

	September 30		Change	
	2004	2003	Amount	Percent
<b>Assets</b>				
Current assets	\$ 3,355,688	\$ 3,376,392	\$ (20,704)	(0.6)
Restricted assets	27,513,286	54,893,637	(27,380,351)	(49.9)
Capital assets	130,560,430	98,105,035	32,455,395	33.1
Total assets	161,429,404	156,375,064	5,054,340	3.2
<b>Liabilities</b>				
Current liabilities	4,555,688	3,984,892	570,796	14.3
Other liabilities	30,000	-	30,000	100.0
Liabilities payable from restricted assets	9,698,201	5,599,991	4,098,210	73.2
Long-term debt	117,146,090	118,225,767	(1,079,677)	(0.9)
Total liabilities	131,429,979	127,810,650	3,619,329	2.8
<b>Net Assets</b>				
Invested in capital assets - Net of debt	16,796,624	8,556,347	8,240,277	96.3
Restricted assets	13,002,801	19,816,567	(6,813,766)	(34.4)
Unrestricted	200,000	191,500	8,500	4.4
Total net assets	<u>\$ 29,999,425</u>	<u>\$ 28,564,414</u>	<u>\$ 1,435,011</u>	5.0

# Western Townships Utilities Authority

## Management's Discussion and Analysis (Continued)

The following table presents condensed information about the Authority's revenues and expenses compared to the prior year.

TABLE 2

	Year Ended September 30		Change	
	2004	2003	Amount	Percent
Earned revenue from townships	\$ 10,840,820	\$ 9,823,486	\$ 1,017,334	10.4
Interest on operating cash	6,060	13,351	(7,291)	(54.6)
Total revenue	10,846,880	9,836,837	1,010,043	10.3
Sewage treatment charges	7,929,408	6,705,725	1,223,683	18.2
Operation and maintenance	1,142,813	1,326,666	(183,853)	(13.9)
Administrative and other	640,682	630,796	9,886	1.6
Sewage capacity rental	1,125,477	1,164,150	(38,673)	(3.3)
Total operating expenses	10,838,380	9,827,337	1,011,043	10.3
Other nonoperating income	1,090,015	739,608	350,407	47.4
Net income - Before capital contributions	1,098,515	749,108	349,407	46.6
Contributions from townships	336,496	18,845,150	(18,508,654)	(98.2)
Change in net assets	<u>\$ 1,435,011</u>	<u>\$ 19,594,258</u>	<u>\$ (18,159,247)</u>	(92.7)

The increase in sewage treatment charges were due mainly to the quarterly fixed charges to Wayne County now being included in the financial statements. Previously, some of the townships paid these charges directly to Wayne County. WTUA now pays all of the townships' fixed quarterly charges to Wayne County and then charges the costs back to the townships. There were also increases to the sewage treatment charges by both sewage treatment facilities that process the wastewater. Operations and maintenance costs were down due to less unexpected maintenance than required in the previous year. Nonoperating income is up mainly due to an increase in the billings to the townships for debt service requirements. The contributions from townships decreased significantly as Canton Township funded a portion of its share of the YCUA expansion costs with cash in the previous fiscal year.

### Budgetary Highlights

During the year, the Authority made very few amendments to its budget. Costs came in slightly under budget.

# Western Townships Utilities Authority

## Management's Discussion and Analysis (Continued)

### Capital Asset and Debt Administration

During the current year, the Authority managed the following capital improvement projects:

YCUA expansion (includes \$2,008,855 of capitalized interest)	\$ 33,982,516
Middle Rouge interceptor repairs	239,138
GIS orthomapping	24,375
Auger compactor	45,000
Downstream control chamber - Design phase	28,084
Pump stations instrumentation upgrade - Design phase	9,094
Variable frequency drive replacement - Design phase	19,500
Other	1,306
	<hr/>
Total capital project additions	<b><u>\$ 34,349,013</u></b>

The YCUA wastewater treatment plant expansion consists of two components: expansion of the main sewage treatment plant and construction of the UV disinfection system. The UV disinfection system was completed and operations were started during 2003. The expansion of the main plant is well under way and on schedule with a completion in late 2005. The Middle Rouge sewer repair involved the lining of a portion of the interceptor in Plymouth and Northville Townships, which will extend the life of the existing lines for 50 or more years. The GIS orthomapping provided updates for the GIS system to help maintain the sewer transportation lines. The auger compactor was purchased for the Lower Rouge facility to remove debris screened from the flow. Previously, the debris was ground and reintroduced to the flow, resulting in maintenance problems in the air release valves. The downstream control chamber is being developed to accommodate the management of the flows from the Middle Rouge facility. As a result, the Authority's total investment in capital assets increased to over \$149 million (before considering depreciation).

The expanded YCUA plant will have capacity sufficient to handle the majority of the Authority's anticipated member township sewage flows through the year 2025. WTUA's share of this expansion is currently estimated at approximately \$74 million. The townships have utilized current funds of approximately \$22 million, and the Authority issued \$51,325,000 in bonds in November 2002. In connection with this new financing, the Authority received a credit rating of AA from Standard and Poor's, exemplifying the strong financial position of our member communities.



# **Western Townships Utilities Authority**

## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

There was a substantial increase in long-term debt in the 2002/2003 fiscal year, due to the debt obligation for the YCUA plant expansion that was issued on November 1, 2002 for \$51,325,000.

The YCUA sewage treatment plant expansion project discussed above will have a significant positive impact on the future cost of sewage disposal to the three member townships in the long term. Current estimates are that this increase is expected to be less than the increases that would have resulted from long-term participation in the Wayne County/Detroit sewage treatment system. The original goal when WTUA was organized was to be able to sell its capacity in the Wayne County/Detroit system once the expansion at YCUA was completed. Due to the growth in Canton Township being greater than previously planned, it is anticipated that the Township of Canton will retain its capacity in the Wayne County/Detroit sewage treatment system after the completion of the current YCUA expansion. Additional expansion of the YCUA sewage treatment facility is also being explored.

Sewage treatment charges represent approximately 72 percent of the Authority's budget for the next fiscal year. The Authority's budget for the year ending September 30, 2005 forecasts a moderate increase in sewage flow volume and rates.

### **Contacting the Authority's Management**

This financial report is intended to provide our member townships and WTUA bondholders with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives from the member townships. If you have questions about this report or need additional information, we welcome you to contact the director of operations.

# Western Townships Utilities Authority

## Statement of Net Assets

	September 30	
	2004	2003
<b>Assets</b>		
Cash (Note 4)	\$ 200	\$ 52,959
Due from members	1,846,597	1,773,154
Billing lookback - Due from members (Note 6)	-	77,026
Unbilled receivable:		
Debt service	1,461,156	1,469,157
Capital improvement	19,500	672
Prepaid expenses	28,235	3,424
Restricted assets:		
Cash and investments (Note 4)	27,463,274	54,797,157
Accrued interest receivable	50,012	96,480
Capital assets - Net (Note 5):		
Nondepreciable	63,249,182	29,228,313
Depreciable	67,311,248	68,876,722
Total assets	161,429,404	156,375,064
<b>Liabilities</b>		
Accounts payable	1,549,684	1,715,735
Accrued payables - Capital projects	30,000	-
Billing lookback - Due to members (Note 6)	144,848	-
Accrued interest payable	1,461,156	1,469,157
Long-term debt due within one year (Note 7)	1,400,000	800,000
Current liabilities payable from restricted assets:		
Construction retainers payable	3,387,970	2,067,558
Construction contracts payable	6,310,231	3,532,433
Long-term debt - Due in more than one year (Note 7)	117,146,090	118,225,767
Total liabilities	131,429,979	127,810,650
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	16,796,624	8,556,347
Restricted for capital purposes	13,002,801	19,816,567
Unrestricted	200,000	191,500
Total net assets	<u>\$ 29,999,425</u>	<u>\$ 28,564,414</u>

# Western Townships Utilities Authority

## Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended September 30	
	2004	2003
<b>Operating Revenue</b>		
Earned revenue from townships	\$ 10,840,820	\$ 9,823,486
Interest earned on operating cash	6,060	13,351
Total operating revenue	10,846,880	9,836,837
<b>Operating Expenses</b>		
Sewage treatment charges	7,929,408	6,705,725
Operation and maintenance	1,142,813	1,326,666
Administrative and other	640,682	630,796
Sewage capacity rental	1,125,477	1,164,150
Total operating expenses	10,838,380	9,827,337
<b>Operating Income</b>	8,500	9,500
<b>Nonoperating Revenue (Expenses)</b>		
Interest earnings on restricted assets	234,833	224,300
Debt billings to townships	6,652,624	6,337,954
Interest expense	(3,583,499)	(3,615,499)
Depreciation	(1,893,618)	(1,877,827)
Amortization	(320,325)	(329,320)
Total nonoperating revenue	1,090,015	739,608
<b>Net Income - Before capital contributions</b>	1,098,515	749,108
<b>Capital Contributions from Townships</b>	336,496	18,845,150
<b>Change in Net Assets</b>	1,435,011	19,594,258
<b>Net Assets - Beginning of year</b>	28,564,414	8,970,156
<b>Net Assets - End of year</b>	<u>\$ 29,999,425</u>	<u>\$ 28,564,414</u>

# Western Townships Utilities Authority

## Statement of Cash Flows

	Year Ended September 30	
	2004	2003
<b>Cash Flows from Operating Activities</b>		
Cash received from townships	\$ 10,989,251	\$ 8,120,903
Cash payments to suppliers for goods and services	(10,646,015)	(9,346,811)
Cash payments to employees for services	(389,240)	(350,205)
Net cash used in operating activities	(46,004)	(1,576,113)
<b>Cash Flows from Capital and Related Financing Activities</b>		
Collection of debt billings to townships	6,660,625	5,778,672
Principal and interest paid on long-term debt	(6,660,625)	(5,936,250)
Proceeds from issuance of debt	-	50,969,328
Payments related to issuance of debt	-	(188,958)
Capital contributions from members	317,668	18,919,191
Collection from YCUA	-	37,738
Payments for the acquisition or construction of capital assets	(28,205,937)	(19,140,276)
Net cash provided by (used in) capital and related financing activities	(27,888,269)	50,439,445
<b>Cash Flows from Investing Activities</b> - Interest received on investments	547,631	664,938
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(27,386,642)	49,528,270
<b>Cash and Cash Equivalents</b> - Beginning of year	54,850,116	5,321,846
<b>Cash and Cash Equivalents</b> - End of year	<u>\$ 27,463,474</u>	<u>\$ 54,850,116</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 8,500	\$ 9,500
Less interest included in operating revenue	(6,060)	(13,351)
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
(Increase) decrease in due from members - Monthly billings	(73,443)	182,029
(Increase) decrease in due from members - Billing lookback	77,026	(77,026)
(Increase) decrease in prepaid expenses	(24,811)	31,608
Increase (decrease) in accounts payable	(172,064)	98,713
Decrease in advances from townships - YCUA rental capacity	-	(1,164,150)
Increase (decrease) in due to members - Billing lookback	144,848	(643,436)
Net cash used in operating activities	<u>\$ (46,004)</u>	<u>\$ (1,576,113)</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Unrestricted cash	\$ 200	\$ 52,959
Restricted cash and investments	27,463,274	54,797,157
Total cash and cash equivalents	<u>\$ 27,463,474</u>	<u>\$ 54,850,116</u>

# Western Townships Utilities Authority

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## Notes to Financial Statements September 30, 2004 and 2003

### Note 1 - Nature of Entity

Western Townships Utilities Authority (the "Authority") is a joint venture of the Charter Townships of Canton, Northville, and Plymouth and was created pursuant to Act 233, Michigan Public Acts of 1955. Its allowed purpose is to acquire and operate a sewage disposal system, a solid waste management system, and/or a water supply system. The Authority currently operates a sewage transportation system for these communities.

The Internal Revenue Service has ruled that the Authority is a political subdivision of the State of Michigan and, as a result, is exempt from federal income tax.

### Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

**Reporting Entity** - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

**Basis of Accounting** - The accrual basis of accounting is used by the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The Authority has elected not to follow private sector standards issued after November 30, 1989.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Operating Revenue** - Operating revenue represents billings to member townships based on the Authority's operating expenses. Therefore, the Authority has shown depreciation expense as a nonoperating expense for the purpose of the statement of revenue, expenses, and changes in net assets.

# Western Townships Utilities Authority

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## Notes to Financial Statements September 30, 2004 and 2003

### Note 2 - Summary of Significant Accounting Policies (Continued)

**Cash Equivalents** - For the purpose of the statement of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

**Investments** - Investments are recorded at fair value, based on quoted market prices.

**Due from Members** - Due from members represents amounts that will be collected from the three townships to pay for the Authority's operational and administrative costs and for reimbursement of capital-related costs.

**Unbilled Receivable** - Unbilled receivable represents amounts that have not been billed to the townships for debt service and capital projects as of the end of the year. The Authority has accrued interest payable in an amount equal to the unbilled receivable for debt service.

**Restricted Assets** - Certain assets are restricted by the Authority's bond ordinance. When an expense is incurred that allows the use of restricted assets, those assets are applied before utilizing any unrestricted assets.

**Capital Assets** - All capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation on such capital assets is charged as an expense against the operations of the Authority.

Capital assets are depreciated using the straight-line method over the following useful lives:

Land restoration	15 years
Utility system:	
Equalization basin and pump station	40 years
Sewage transmission lines	60 years
Equity in YCUA	40 years
Furniture and equipment	7 years

Other accounting policies are disclosed in other notes to the financial statements.

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2004 and 2003

### Note 3 - Stewardship, Compliance, and Accountability

**Budgetary Information** - An annual budget is adopted on the modified accrual basis of accounting, which is a comprehensive basis of accounting used for governmental fund-type operations; it differs from accounting principles generally accepted in the United States of America for proprietary fund-type operations such as the Western Townships Utilities Authority. The annual budget is prepared by the Authority's accountant and is adopted by the Authority's Board of Commissioners; subsequent amendments are approved by the Authority's Board of Commissioners.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operating expenditures to the budget adopted by the Board of Commissioners for the Enterprise Fund is included in the supplemental information.

There were no significant budget overruns at September 30, 2004 and 2003.

### Note 4 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated two banks for the deposit of funds. The investment policy adopted by the Board in accordance with Public Act 20 of 1943 (as amended) has authorized the Authority to deposit and invest in all investments allowed by the State statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's cash and investments are included on the statement of net assets under the following classifications:

	2004	2003
Cash	\$ 200	\$ 52,959
Restricted assets	27,463,274	54,797,157
Total	<u>\$ 27,463,474</u>	<u>\$ 54,850,116</u>

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2004 and 2003

### Note 4 - Deposits and Investments (Continued)

The above amounts are classified by Governmental Accounting Standards Board Statement No. 3 in the following categories:

	2004	2003
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 8,187,216	\$ 8,063,588
Investments in securities, mutual funds, and similar vehicles	19,276,258	46,786,528
Total	<u>\$ 27,463,474</u>	<u>\$ 54,850,116</u>

The Authority's deposits and investments are comprised of the following:

	2004		2003	
	Deposits	Investments	Deposits	Investments
Unrestricted	\$ 200	\$ -	\$ 658	\$ 52,301
Restricted for construction purposes:				
YCUA Construction Account Trust	8,165,935	15,311,588	8,041,975	44,089,946
Assets held at Wayne County	-	-	-	23
Restricted for solid waste purposes	21,081	-	20,955	-
Restricted for retainages	-	3,387,970	-	2,067,558
Restricted for capital replacement and improvement	-	576,700	-	576,700
Total	<u>\$8,187,216</u>	<u>\$19,276,258</u>	<u>\$ 8,063,588</u>	<u>\$46,786,528</u>

### Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$8,187,948 and \$8,063,701 at September 30, 2004 and 2003, respectively. Of those amounts, approximately \$400,000 was covered by federal depository insurance at September 30, 2004 and 2003. The remainder was uninsured and uncollateralized.



# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2004 and 2003

### Note 4 - Deposits and Investments (Continued)

#### Investments

At September 30, 2004, the Authority's investment balances were categorized as follows:

	2004	2003
Municipal bonds	\$ 3,600,000	\$ -
U.S. government securities	2,473,117	10,015,900
Mutual funds	13,203,141	36,770,628
Total	<u>\$ 19,276,258</u>	<u>\$ 46,786,528</u>

The municipal bonds and U.S. government securities are both held by the counterparty's trust department, in the Authority's name. The mutual funds consist of bank trust funds, which are held by the trust department of the bank and are regulated by the Michigan Banking Act. The fair value of the position in the money market mutual funds is the same as the value of the shares. The money market mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Authority believes that the investments in the funds comply with the investment authority noted above.

The Authority's investment in U.S. government securities consists of securities issued by the Federal Home Loan Bank. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

The municipal bond investments are county-issued delinquent tax anticipation bonds. These investments are backed by the State of Michigan. These funds tend to yield more than mutual funds.

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2004 and 2003

### Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2004 was as follows:

	2003	Increase	Decrease	2004
Capital assets not being depreciated:				
Land	\$ 2,136,913	\$ -	\$ -	\$ 2,136,913
Construction in progress:				
Equity in YCUA sewage plant	27,067,403	33,982,516	-	61,049,919
Other capital projects	23,997	56,678	(18,325)	62,350
Subtotal	29,228,313	34,039,194	(18,325)	63,249,182
Capital assets being depreciated:				
Land restoration costs	2,412,243	-	-	2,412,243
Utility system:				
Sewage transmission lines	42,856,751	233,396	-	43,090,147
Equalization basin and pump station	37,005,800	45,000	-	37,050,800
Equity in YCUA	3,445,892	-	-	3,445,892
Furniture and office equipment	41,076	49,748	(6,406)	84,418
Subtotal	85,761,762	328,144	(6,406)	86,083,500
Less accumulated depreciation for:				
Land restoration costs	(1,567,958)	(160,816)	-	(1,728,774)
Utility system:				
Sewage transmission lines	(6,466,862)	(716,172)	-	(7,183,034)
Equalization basin and pump station	(8,665,007)	(925,709)	-	(9,590,716)
Equity in YCUA	(144,137)	(86,148)	-	(230,285)
Furniture and office equipment	(41,076)	(4,773)	6,406	(39,443)
Subtotal	(16,885,040)	(1,893,618)	6,406	(18,772,252)
Net capital assets being depreciated	68,876,722	(1,565,474)	-	67,311,248
Total capital assets - Net of depreciation	\$ 98,105,035	\$ 32,473,720	\$ (18,325)	\$ 130,560,430

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2004 and 2003

### Note 5 - Capital Assets (Continued)

**Construction Commitments** - The Authority has one active construction project at year end, the expansion of the YCUA plant. The purpose of the YCUA plant expansion is to improve and expand the YCUA wastewater treatment facilities and to provide transportation and treatment of wastewater for the Charter Townships of Canton, Northville, and Plymouth. At year end, the Authority's commitments with contractors are as follows:

	<u>Total Commitment</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
YCUA plant expansion	\$74,364,561	\$56,677,830	\$17,686,731

In addition to the above costs, engineering and design costs for the YCUA plant expansion have been incurred in the amount of \$3,328,826. This phase of the project was complete as of September 30, 2002.

The majority of the costs associated with the plant expansion are being financed through cash contributions from the townships of approximately \$22,000,000 and \$51,325,000 in Sewage Disposal System Bonds (Limited Tax General Obligation), Series 2002. The townships have entered into a contract with the Authority whereby the townships have agreed to pay the principal and interest on the bonds as they become due.

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2004 and 2003

### Note 6 - Due to (from) Members - Billing Lookback

At September 30, 2004 and 2003, the amount due to member townships is as follows:

	2004	2003
Operating activities:		
Monthly billings	\$ 10,985,668	\$ 9,750,873
Actual operating expenses - Net of interest earnings and planned working capital addition	<u>(10,840,820)</u>	<u>(9,823,486)</u>
Total operating activities	144,848	(72,613)
Debt activities:		
Debt invoiced to townships for 2001 bond issue	4,391,500	4,384,608
Debt invoiced to townships for 2002 bond issue	2,269,125	1,355,172
Debt invoiced to townships in prior year	-	38,892
Semiannual principal and interest payments on debt	(6,660,625)	(5,936,250)
Proceeds from 2002 bond issue	-	50,811,750
Accrued interest received from 2002 bond issue	-	157,578
Transfer to Construction Account Trust - Net of accrued interest and issuance costs of \$188,958	-	(50,622,792)
Costs of issuance	<u>-</u>	<u>(188,958)</u>
Total debt activities	-	-
Capital activities:		
Billed as part of the monthly invoices	336,496	369,869
Capital contribution from Canton	-	18,470,869
Transfer to Construction Account Trust	-	(18,470,869)
Cash paid for capital asset acquisitions	<u>(336,496)</u>	<u>(396,646)</u>
Total capital activities	-	(26,777)
Nonbudgeted increase in working capital	<u>-</u>	<u>22,364</u>
Total billing lookback (from) to townships	<u>\$ 144,848</u>	<u>\$ (77,026)</u>

In addition, approximately \$26,900,000 and \$54,200,000 as of September 30, 2004 and 2003, respectively, was being held in trust related to the YCUA expansion project.

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2004 and 2003

### Note 7 - Long-term Debt

Long-term debt activity for the year ended September 30, 2004 was as follows:

	Beginning Balance	Current Year Reductions	Ending Balance	Due Within One Year
2001 General Obligation Bond, with interest rates from 3.5% to 5.25%, maturing through 2019 (used to fund the WTUA collection system)	\$ 72,725,000	\$ (800,000)	\$ 71,925,000	\$ 900,000
2002 General Obligation Bond, with interest rates from 3.00% to 5.00%, maturing through 2023 (used to fund the YCUA plant expansion)	51,325,000	-	51,325,000	500,000
Less:				
Deferred amount on 2001 refunding	(4,353,944)	285,504	(4,068,440)	-
Unamortized bond issue costs on 2002 issue	(180,369)	9,369	(171,000)	-
Unamortized discount on 2002 issue	(489,920)	25,450	(464,470)	-
Total long-term debt	<u>\$ 119,025,767</u>	<u>\$ (479,677)</u>	<u>\$ 118,546,090</u>	<u>\$ 1,400,000</u>

### Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of September 30, 2004 are as follows:

Years Ending September 30	Principal	Interest	Total
2005	\$ 1,400,000	\$ 5,819,125	\$ 7,219,125
2006	4,825,000	5,676,250	10,501,250
2007	5,500,000	5,423,875	10,923,875
2008	5,500,000	5,146,375	10,646,375
2009	6,500,000	4,835,750	11,335,750
2010-2014	38,150,000	18,856,938	57,006,938
2015-2019	44,875,000	8,290,250	53,165,250
2020-2023	16,500,000	1,583,125	18,083,125
Total	<u>\$ 123,250,000</u>	<u>\$ 55,631,688</u>	<u>\$ 178,881,688</u>

# Western Townships Utilities Authority

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## Notes to Financial Statements September 30, 2004 and 2003

### Note 7 - Long-term Debt (Continued)

#### Interest

For the year ended September 30, 2004, interest incurred by the Authority (net of interest earned on bond proceeds of \$260,270) totaled \$5,592,354, of which \$2,008,855 was capitalized. For the year ended September 30, 2003, interest incurred by the Authority (net of interest earned on bond proceeds of \$523,767) totaled \$5,014,187, of which \$1,398,688 was capitalized.

#### Defeased Debt

On August 1, 2002, the Authority defeased \$6,846,646 of capital appreciation bonds, which had an imputed average interest rate of 6.7 percent. In order to defease the bonds, the Authority used \$10,613,227 (\$4,008,059 of cash contributions from the Townships and \$6,605,168 in accounts under the Indenture Trust for the Series 1991 Bonds) to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to be used to pay the debt service on each scheduled payment date through January 1, 2005. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the liability section of the balance sheet.

### Note 8 - Lease Commitment

The Authority has entered into an agreement with the Ypsilanti Community Utilities Authority (YCUA), under which the Authority obtains certain rights to use a portion of the treatment capacity of the YCUA wastewater treatment plant. This agreement requires a rental payment on November 17 each year through November 17, 2033.

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2004 and 2003

### Note 8 - Lease Commitment (Continued)

Annual payment requirements for the above are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2005	\$ 1,085,171
2006	1,041,915
2007	995,711
2008	780,672
2009	757,353
2010-2014	3,381,823
2015-2019	2,572,980
2020-2024	1,642,286
2025-2029	1,211,561
2030-2033	<u>821,322</u>
Total	<u>\$ 14,290,794</u>

The Authority may renew this lease for two additional successive 33-year periods.

### Note 9 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for medical benefits provided to employees, and participates in the Michigan Municipal Risk Management Authority State Pool for claims relating to property loss, torts, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance in any of the past three years.

The Michigan Municipal Risk Management Authority State Pool operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

# **Western Townships Utilities Authority**

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## **Notes to Financial Statements September 30, 2004 and 2003**

### **Note 10 - Defined Contribution Retirement Plan**

The Authority provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the personnel policies manual, the Authority contributes 15 percent of employees' gross earnings and employees contribute 5 percent of earnings. Employees are 100 percent vested after a period of five years. In accordance with these requirements, for the fiscal years ended September 30, 2004 and 2003, the Authority contributed approximately \$35,500 and \$31,400, respectively.



## **Supplemental Information**

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# Western Townships Utilities Authority

## Schedule of Operating Expenditures Budget and Actual Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Sewage Treatment Charges</b>	<b><u>\$ 8,476,439</u></b>	<b><u>\$ 8,476,439</u></b>	<b><u>\$ 7,929,408</u></b>	<b><u>\$ 547,031</u></b>
<b>Operation and Maintenance Costs</b>	<b><u>\$ 1,359,606</u></b>	<b><u>\$ 1,359,606</u></b>	<b><u>\$ 1,142,813</u></b>	<b><u>\$ 216,793</u></b>
<b>Administrative Costs</b>				
Salaries	\$ 321,430	\$ 318,855	\$ 293,461	\$ 25,394
Benefits	112,125	114,700	102,980	11,720
Office expenses	58,000	58,000	45,180	12,820
Insurance	100,000	100,000	92,589	7,411
Bank and bond service fees	10,000	10,000	3,509	6,491
Consultants:				
Legal	45,000	45,000	38,278	6,722
Financial	40,230	40,230	23,080	17,150
Indirect engineering	<u>53,000</u>	<u>53,000</u>	<u>41,605</u>	<u>11,395</u>
Total administrative costs	<b><u>\$ 739,785</u></b>	<b><u>\$ 739,785</u></b>	<b><u>\$ 640,682</u></b>	<b><u>\$ 99,103</u></b>
<b>Sewage Capacity Rental Costs</b>	<b><u>\$ 1,125,477</u></b>	<b><u>\$ 1,125,477</u></b>	<b><u>\$ 1,125,477</u></b>	<b><u>\$ -</u></b>

The above schedule represents operating expenditures for the year based on the modified accrual basis of accounting, to be consistent with the basis of accounting used in the preparation of the budget.

# Western Townships Utilities Authority

## Schedule of Indebtedness September 30, 2004

### Limited Tax General Obligation Bonds

2001 Bond Issue (original principal \$74,350,000)

Interest		Principal Debt Outstanding		Annual
Rate	Date of Maturity	September 30		Interest
(Percent)	January 1	2004	2003	Payable
4.00	2004	\$ -	\$ 800,000	\$ 3,591,500
4.00	2005	900,000	900,000	3,557,500
5.25	2006	4,000,000	4,000,000	3,434,500
5.25	2007	4,000,000	4,000,000	3,224,500
5.25	2008	4,000,000	4,000,000	3,014,500
5.25	2009	4,500,000	4,500,000	2,791,375
5.25	2010	4,550,000	4,550,000	2,553,812
5.25	2011	5,000,000	5,000,000	2,303,125
5.25	2012	5,100,000	5,100,000	2,038,000
5.25	2013	5,500,000	5,500,000	1,759,750
5.25	2014	6,000,000	6,000,000	1,457,875
5.25	2015	6,200,000	6,200,000	1,137,625
5.25	2016	6,500,000	6,500,000	804,250
4.75	2017	6,800,000	6,800,000	472,125
3.50	2018	7,000,000	7,000,000	188,125
3.50	2019	1,875,000	1,875,000	32,813
Total 2001				
	Issue	71,925,000	72,725,000	32,361,375

# Western Townships Utilities Authority

## Schedule of Indebtedness (Continued) September 30, 2004

### Limited Tax General Obligation Bonds (Continued)

2002 Bond Issue (original principal \$51,325,000)

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding		Annual Interest Payable
		September 30		
		2004	2003	
n/a	2004	\$ -	\$ -	\$ 2,269,125
3.00	2005	500,000	500,000	2,261,625
3.00	2006	825,000	825,000	2,241,750
4.00	2007	1,500,000	1,500,000	2,199,375
5.00	2008	1,500,000	1,500,000	2,131,875
5.00	2009	2,000,000	2,000,000	2,044,375
5.00	2010	2,000,000	2,000,000	1,944,375
4.00	2011	2,000,000	2,000,000	1,854,375
4.00	2012	2,500,000	2,500,000	1,764,375
5.00	2013	2,500,000	2,500,000	1,651,875
4.00	2014	3,000,000	3,000,000	1,529,375
4.25	2015	3,000,000	3,000,000	1,405,625
4.25	2016	3,000,000	3,000,000	1,278,125
4.25	2017	3,500,000	3,500,000	1,140,000
4.25	2018	3,500,000	3,500,000	991,250
4.375	2019	3,500,000	3,500,000	840,313
4.50	2020	4,000,000	4,000,000	673,750
4.50	2021	4,000,000	4,000,000	493,750
4.75	2022	4,000,000	4,000,000	308,750
4.75	2023	4,500,000	4,500,000	106,875
Total 2002 Issue		51,325,000	51,325,000	29,130,938
Total Limited Tax General Obligation Bonds		\$ 123,250,000	\$ 124,050,000	\$ 61,492,313